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Thursday, September 06, 2007

Institutional changes prerequisite to the industrial revolution

In the ongoing debate at Marginal Revolution over Gregory Clark's new book *A Farewell to Alms* -- which I highly recommend, despite my criticisms -- he wrote the following:

"The widespread impression that between 1300 and 1800 England experienced significant institutional improvements is just wrong. There were changes, yes. But not improvements."

To which I responded:

> Some important institutional changes -- some of them arguably radical improvements -- in England between 1300 and 1800:
>
> * The mechanical clock, 14th century. The resulting rise of clock culture and the time wage may have slowly but radically improved the coordination and work habits of Europeans. Earlier adaptation to clock culture, a process that may take centuries to evolve, may explain the large discrepencies between European and many non-European laborer work habits that Clark cites.
>
> * The printing press and the rise of book consciousness, which radically decreased the costs of teaching economically important knowledge to both children and adults. The rise of book consciousness, reflected in the literacy and book cost data Clark graphs, explains the most prominent puzzle revealed by Clark's data: the fact that skills and innovation rose dramatically even as the rewards to skills were stagnant or declined.
>
> * Nationalization the Church in England and secularization of family law, 16th century.
>
> * The incorporation of the Lex Mercatoria into the common law, and the resulting rise of modern contract law, 18th century. Indeed, much of this occured in the same decades as the start of the industrial revolution.
>
> * The "Romanization" of property law, rendering land more freely saleable, divisible, and mortgageable, which Adam Smith noted was an important improvement still in process at his time.
>
> * The rise of marine insurance (e.g. Lloyd's of London) and the associated rise of colonialism and world trade, 17th-18th

About Me

Nick Szabo

"A premier thinker about history, law and economics, and the lessons they have for security." -- Adam Shostack, Emergent Chaos

"Szabo comes out with these essays that leave me in awe." -- Brian Dunbar

"Reading material that is eclectic, challenging and endlessly fascinating." -- Sean McGrath, Propylon

"Like most blogs worth my attention, this blog is updated only infrequently. That is because the authors of blogs worth my attention only post when they have something to say that is true, relevant and not already known by their audience. Most of the human race does not have the skill to know when an idea has these three properties. The skill is particularly rare in the fields of politics and economics, which is why this blog is such a rare and valuable thing." -- Richard Hollerith

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century.

* The decline of guilds and monopolies, 16th-18th centuries. Medieval England was certainly not a highly competitive market economy. Commerce in goods was dominated rather by monopolies and a variety of price and quality controls instituted by guilds and towns.

Here is more of the debate at MR.

Posted by Nick Szabo at 6:28 PM

2 comments:

Steve Sailer said...

Good points.

I think Clark is mostly having fun at the expense of the contemporary economics community, which has largely forgotten about the things you mentioned. Hernando De Soto talks about when he made a visit to economists in the U.S. and they wanted to talk about exchange rates and budget deficits and privatization, and he wanted to find out how you set up a county registrar of deeds office, a topic of zero interest to American economists because it was all figured out way in the past.

Thus we get Harvard economists advising Russia in the 1990s to do a lot of free market stuff that turned out disastrously because institutions were all wrong.

5:38 PM

nick said...

I couldn't agree more. Market economics makes no sense without property rights, and the poorer the security of property rights the less the outcome will resemble anything like a market. Property rights can also be important in non-market situations (e.g. firms, franchises, and monarchies).

However there are a number of economists who quietly study these things, and they are very much worth reading. In particular I recommend Oliver Williamson, Steve Cheung, Yoram Barzel, Janet Landa, and other "New Institutional Economists" who study the role of contracts and property in creating not only markets but also firms and other economic institutions.

Also some articles of mine:

Measuring Value: http://szabo.best.vwh.net/measuringvalue.html

Emergency Economics: http://szabo.best.vwh.net/emergencyeconomics.html

The Origins of Money:
http://szabo.best.vwh.net/shell.html

BTW, I think Clark is onto something when he singles out temperament, rather than IQ, as the main epigenetic differentiator of economic performance. But much research in genetics, and probably new kinds of pscychological tests for various important kinds of temperament, are required to turn his theory into anything more than vague speculation.

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